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PRINCIPLES AND POLICY OPTIONS**

Indonesian



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TRADE PERFORMANCE AS A BASIS OF TRADE COOPERATION AMONG DEVELOPING COUNTRIES: PRINCIPLES AND POLICY OPTIONS*

R.S. Tiwari

I. Introduction : Relevance of the Study

Early literature on trade and development widely recognised collective self-reliance as an important development objective in developing countries. So as to achieve this, industrialisation process in many developing countries was intensified, in which the emphasis was placed on growth of trade. Until mid 60s, the industrialization-led development strategy was considered as an inward oriented through reorienting indigenous investment, material resources, technology and protective measures, such as, tariffs, quota, taxes and exchange rate appreciation. Since mid 60s, it was but soon realised that industries, which grew under protective umbrella also required inputs to sustain their ongoing production activity, the demand for which could

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not be met from the domestic sources alone. This, in turn, forced developing countries to enhance their import-capacity through increase in export, thus, shifting the emphasis from inward-looking import-substitution to outward-looking export-promotion led industrialisation development strategy.

Export-promotion strategy, implying the exploitation of micro and macro economic efficiency through trading of factor's efficiency and commodities, though induced country's import-capacity but it was not, however, adequate to meet the increasing import-requirement needed for country's development process. This was due to the various internal supply bottlenecks and external demand constraints, in which the role played by tariff and non-tariff barriers received utmost significance. Whereas many developed countries had been successful in "skipping over" the effect of trade barriers through diversifying their products and markets, the developing countries could not be able to counter such adverse effects.

Tariff and non-tariff preferences demanded by developing countries from developed nations under various GATT rounds and UNCTAD conferences appeared no more than a psychological satisfaction. It either ended at the discussion stage or the extent of such preferences was such that could be easily waived by the restrictive clauses and criteria artificially imposed by the developed countries. Thus, room for expanding the export from developing into the developed countries was

almost closed. Hence, trade among the developing countries was increasingly realised as second best solution than between the developing and the developed countries. In the above background, present study aims at examining the trade performance of developing countries and the need for trade cooperation among themselves.

II.1 Export Performance : 1961 - 1988

Table-1 compares the export performance of developed market economies (DMEs), developing countries (DCs) and the world, in which volume indices of export (y) and value of export (y_1) has separately been treated as a function of time (t) in semi-logarithmic regression equation ($\log y = a + bt$). Results of statistically reliable regression coefficients show that export performance from 1961 to 1988 in DCs and NONOPEC lagged behind to that of developed market economies (DMEs) and the world. It is dissatisfying that export volume in developing countries from 1961 to 1988 grew at a rate of 3 per cent per annum, which was lower than that of 6 per cent of developed market economies (DMEs) and the world. Also, the growth rate in volume of export was lowest of 5 per cent in NONOPEC. More or less, a similar observation was also found in context of export performance in terms of values. Over 1961-88, export in developing countries (DCs) grew at the rate of 4 per cent, which was less than that in developed market economies (6 per cent) and in the world (5 per cent).

Table-1 : Trends in Export Performance of Developed Market Economies (DMEs), Developing Countries (DCs) and the World : 1961-88

Regression Equation : $\log y = a + bt$
 y = Volume Index of Export 1980 = 100

Period	Constant term (b)	Regression coefficient (b)	t-values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	3.11	0.09*	38.79	0.99*	891.00
1971-81	4.04	0.06*	16.08	0.97*	291.00
1981-88	4.51	0.06*	8.79	0.93*	79.71
1961-88	3.26	0.06*	30.13	0.97*	840.67
<u>B - Developing Countries (DCs)</u>					
1961-71	3.61	0.07*	48.59	0.99*	891.00
1971-81	4.47	0.02**	2.10	0.33**	4.43
1981-88	4.42	0.01	1.14	0.18	1.32
1961-88	3.92	0.03*	6.38	0.61*	40.67
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	3.65	0.09*	27.97	0.99*	891.00
1971-81	4.80	-0.02***	-1.48	0.20	2.25
1981-88	4.33	-0.06*	-5.50	0.83*	29.29
1961-88	4.29	0.00	0.32	neg.	0.10
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	3.41	0.05*	40.42	0.99*	891.00
1971-81	4.01	0.06*	15.77	0.97*	291.00
1981-88	4.73	neg.	neg.	neg.	neg.
1961-88	3.46	0.05*	18.79	0.93*	345.43
<u>E - World</u>					
1961-71	3.21	0.08*	40.06	0.99*	891.00
1971-81	4.15	0.05*	10.20	0.92*	103.50
1981-88	4.48	0.05*	6.27	0.87*	40.15
1961-88	3.41	0.06*	20.02	0.94*	407.33

Table-1 Contd..

$$\text{Regression Equation : } \log y_1 = a + bt$$

$$y_1 = \text{Value of Export 1980} = 100$$

Period	Constant term (a)	Regression coefficient (b)	t=values	R ² = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	5.63	0.09*	36.26	0.99*	891.00
1971-81	6.57	0.06*	16.58	0.97*	291.00
1981-88	7.08	0.04*	9.30	0.94*	94.00
1961-88	5.81	0.06*	25.71	0.96*	624.00
<u>B - Developing Countries (DCs)</u>					
1961-71	5.60	0.03**	1.94	0.30**	3.86
1971-81	6.11	0.04*	6.00	0.80*	36.00
1981-88	6.29	0.03*	3.48	0.67*	12.18
1961-88	5.62	0.04*	10.62	0.81*	110.84
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	4.94	0.08*	18.37	0.97*	291.00
1971-81	5.98	-0.02***	-1.72	0.25***	3.00
1981-88	5.16	0.05	1.10	0.17	1.23
1961-88	5.46	0.01	0.98	0.04	1.08
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	4.81	-0.05***	-1.43	0.18	1.76
1971-81	4.48	0.13*	15.92	0.97*	291.00
1981-88	5.92	0.02	0.85	0.11	0.74
1961-88	4.11	0.07*	8.18	0.72*	66.86
<u>E - World</u>					
1961-71	6.31	0.06*	7.20	0.85*	51.00
1971-81	7.06	0.05*	11.67	0.94*	141.00
1981-88	7.45	0.04*	6.97	0.89*	48.55
1961-88	6.41	0.05*	21.08	0.94*	407.33

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

*** Indicates significant at 10 per cent level.

Source : International Monetary Fund, International Financial Statistics, and World Bank, World Tables, Various issues.

It appears, therefore, that the performance of export in developing countries (DCs) lagged behind to that of developed market economies (DMEs) and the world.

II.2 Import Requirement : 1961-1988

Export performance of a country also influences the import requirement. The semi-logarithmic regression functions have been fitted, in which volume indices of import (y) and absolute value of import (y_1) has separately been regressed with time ($\text{Log } y = a + bt$). Overall results of statistically reliable models (Table-2) show that over 1961-88, import volume and its values grew by 6 per cent annually in developing countries (DCs), developed market economies (DMEs) and the world. However, there were variations between NONOPEC and the OPEC. Whereas in NONOPEC both volume indices and values of import from 1961-1988 grew by 5 per cent per annum, these increased at a higher rate of 10 per cent and 9 per cent respectively in OPEC.

Table-2 : Trends in Volume of Import and Values of Import in Developed Market Economies, Developing Countries and the World : 1961-88

Regression Equation : $\log y = a + bt$
 y = Volume Index of Import 1980 = 100

Period	Constant term (b)	Regression coefficient (b)	T-values	R^2 = values	F = Statistics
<u>A - Developed Market Economics (DMEs)</u>					
1961-71	3.19	0.09*	31.88	0.99*	891.00
1971-81	4.20	0.04*	8.17	0.88*	66.00
1981-88	4.45	0.07*	11.06	0.95*	114.00
1961-88	3.41	0.06*	21.73	0.95*	494.00
<u>B - Developing Countries (DCs)</u>					
1961-71	3.20	0.06*	20.44	0.98*	441.00
1971-81	3.82	0.08*	18.86	0.98*	441.00
1981-88	4.64	0.01	1.15	0.18	1.32
1961-88	3.22	0.06*	23.45	0.95*	494.00
<u>C - Oil-Producing and Exporting Countries (OPEC)</u>					
1961-71	2.45	0.06*	8.58	0.89*	72.82
1971-81	3.16	0.16*	9.80	0.91*	91.00
1981-88	4.93	-0.06**	-2.93	0.59**	8.63
1961-88	2.37	0.10*	13.29	0.87*	174.00
<u>D - Non-Oil-Producing and Exporting Countries (NONOPEC)</u>					
1961-71	3.33	0.06*	16.89	0.97*	291.00
1971-81	3.99	0.06*	15.30	0.96*	216.00
1981-88	4.53	0.04*	4.43	0.77*	20.09
1961-88	3.41	0.05*	29.79	0.97*	840.67
<u>E - World</u>					
1961-71	3.18	0.08*	53.20	0.99*	891.00
1971-81	4.09	0.05*	13.64	0.95*	171.00
1981-88	4.48	0.06*	7.24	0.90*	54.00
1961-88	3.35	0.06*	26.75	0.96*	624.00

Table-2 Contd..

Regression Equation : $\text{Log } y_1 = a + bt$ y_1 = Value of Import (in bill US \$) 1980 = 100

Period	Constant term (a)	Regression coefficient (b)	T-values	R^2 = values	F = Statistics
<u>A - Developed Market Economics (DMEs)</u>					
1961-71	5.86	0.09*	51.78	0.99*	891.00
1971-81	6.85	0.04*	7.90	0.87*	60.23
1981-88	7.10	0.06*	12.63	0.96*	144.00
1961-88	6.08	0.06*	21.00	0.94*	407.33
<u>B - Developing Countries (DCs)</u>					
1961-71	4.97	0.06*	11.08	0.93*	119.57
1971-81	5.65	0.07*	6.65	0.83*	43.94
1981-88	6.35	0.02***	1.84	0.36***	3.38
1961-88	5.01	0.06*	19.38	0.94*	407.33
<u>C - Oil-Producing and Exporting Countries (OPEC)</u>					
1961-71	2.83	0.05*	4.54	0.70*	21.00
1971-81	3.34	0.17*	7.99	0.88*	66.00
1981-88	5.33	-0.11*	-7.54	0.90*	54.00
1961-88	2.71	0.09*	10.59	0.81*	110.84
<u>D - Non-Oil-Producing and Exporting Countries (NONOPEC)</u>					
1961-71	4.84	0.06*	11.36	0.93*	119.57
1971-81	5.57	0.05*	4.29	0.67*	18.27
1981-88	5.96	0.05*	4.67	0.78*	21.27
1961-88	4.92	0.05*	19.60	0.94*	407.33
<u>E - World</u>					
1961-71	6.20	0.08*	34.30	0.99*	891.00
1971-81	7.11	0.05*	9.54	0.91*	91.00
1981-88	7.48	0.05*	9.27	0.93*	79.71
1961-88	6.38	0.06*	23.27	0.95*	494.00

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

*** Indicates significant at 10 per cent level.

Source: International Monetary Fund, International Financial Statistics and World Bank, World Tables, various issues.

II.3 Balance of Trade

Gap between export and import determines the position in balance of trade. So as to understand the consistent behaviour of merchandise trade, a linear regression model, treating merchandise trade as a function of time ($y = a + bt$), was fitted. Statistically significant regression coefficients (Table-3) showed that deficit in trade increased at a higher level (\$-4.86 Bill. per year) in developing countries (DCs) than that in the developed market economies \$ 3.95 Bill. and that in the OPEC (\$ -3.33 Bill.). It implies that merchandise trade position has been relatively better off in developed market economies (DMEs) and the oil producing and exporting countries (OPEC) than that in the developing countries (DCs).

II.4 Terms of Trade : 1961-1988

Terms of trade more or less portrayed a mix pattern in developed market economies (DMEs) and in different groups of developing countries (DCs). Table-4 compares the terms of trade in different groups of countries. A semi-logarithmic regression equation has been employed, in which indices of terms of trade are expressed as a function of time ($\log y = a + bt$). Statistically reliable regression coefficients show that terms of trade has been more favourable in OPEC (0.08), DCs (0.04) and World (0.01) than that in NONOPEC (-0.01) and in the developed market economies (-0.007).

Table-3 : Growth Trends in Balance of Trade in Developed Market Economies, Developing Countries and the World : 1961-88

Regression Equation : $y = a + bt$
 Balance of Trade = (export-import)

Period	Constant term (a)	Regression coefficient (b)	T-values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	-57.78	-12.99*	-25.24	0.99*	891.00
1971-81	-240.49	10.08*	2.99	0.50*	9.00
1981-88	2.96	-41.38*	-8.55	0.92*	69.00
1961-88	-109.57	-3.95*	-2.77	0.23*	7.77
<u>B - Developing Countries (DCs)</u>					
1961-71	136.73	-2.27*	-0.52	0.33	0.28
1971-81	176.69	-10.78***	-1.81	0.26**	3.16
1981-88	-37.43	11.68*	4.52	0.77*	20.09
1961-88	162.43	-4.86*	-3.69	0.34*	13.39
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	105.29	17.53*	14.38	0.96*	216.00
1971-81	379.35	-19.39*	4.45	0.69*	20.03
1981-88	-33.43	28.93**	2.45	0.50**	6.00
1961-88	248.01	-3.33***	-1.45	0.07	1.96
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	31.44	-19.80*	-4.84	0.72*	23.14
1971-81	-202.65	8.61***	1.66	0.23***	2.69
1981-88	-4.00	-17.25***	-1.48	0.27	2.22
1961-88	-85.58	-1.53	-0.82	0.03	0.80
<u>E - World</u>					
1961-71	78.95	-15.26*	-3.52	0.58*	12.43
1971-81	-63.80	-0.70	-0.14	0.002	0.01
1981-88	-34.46	-29.70*	-5.85	0.85*	34.00
1961-88	-52.86	-8.81*	-6.68	0.63*	44.27

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

*** Indicates significant at 10 per cent level.

Source: International Monetary Fund, International Financial Statistics, World Bank, World Tables, Various issues.

Table-4 : Trends in Terms of Trade in Developed Market Economies, Developing Countries and the World : 1961-88

Regression Equation : $\log y = a + bt$
 y = Indices of Terms of Trade in US\$
 1980=100

Period	Constant term (a)	Regression coefficient (b)	T=values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	4.78	0.004*	6.64	0.83*	43.94
1971-81	4.84	-0.02*	-6.72	0.83*	43.94
1981-88	4.55	0.02*	6.06	0.86*	36.86
1961-88	4.83	-0.007*	-5.08	0.50*	26.00
<u>B - Developing Countries (DCs)</u>					
1961-71	3.58	0.03*	3.70	0.60*	13.50
1971-81	3.83	0.08**	6.95	0.84*	47.25
1981-88	4.69	-0.03*	-6.88	0.89*	48.55
1961-88	3.53	0.04*	12.55	0.86*	159.71
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	2.84	0.006	1.29	0.16*	1.71
1971-81	2.93	-0.17*	6.61	0.83*	43.94
1981-88	5.08	-0.14*	-5.69	0.84*	31.50
1961-88	2.53	0.08*	8.28	0.72*	66.86
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	4.80	-0.007	-1.13	0.12	1.23
1971-81	4.77	-0.02*	-3.57	0.59*	12.95
1981-88	4.51	0.008**	2.87	0.58**	8.29
1961-88	4.83	-0.01*	-8.41	0.73*	70.30
<u>E - World</u>					
1961-71	4.43	0.02*	3.04	0.51*	9.37
1971-81	4.64	-0.001	-0.37	0.02	0.18
1981-88	4.59	0.01*	4.86	0.80*	24.00
1961-88	4.52	0.01*	4.03	0.39*	16.62

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

*** Indicates significant at 10 per cent level.

Source: International Monetary Fund, International Financial Statistics, World Bank, World Tables, various issues.

Various factors on internal supply and that on external demand have been held responsive for determining the behaviour of terms of trade. It has, however, not been possible to capture the influence of all factors explaining terms of trade. Notwithstanding, influence of major factors i.e., export and import prices have been considered. A semi-logarithmic regression function has been fitted treating export prices (y) and import prices (y_1) as a function of time (t) ($\text{Log } y = a + bt$). A close examination of table-5 portrays that import prices increased at a higher rate in NONOPEC (7 per cent per annum) than that of export prices (6 per cent). In sharp contrast to above, export prices in OPEC and DCs grew at a higher rate (14 and 11 per cent) than that of import prices (6 per cent and 7 per cent). It generally suggests that increase in import prices over export prices has been the major factor for the adverse terms of trade position in NONOPEC vis-a-vis the OPEC and DCs.

II.5 Relative Share in World Export : 1961-1988

Another dimension of trade performance could be the examination of movement in share of export in the world export. To what extent the export of developing in general and NONOPEC in particular has been able to capture the increasing world trade could be examined by tracing the relative share of export from developing countries in the world market.

Table-5: Trends in Export Price Indices and Import Price Indices in Developed Market Economies, Developing Countries and the World : 1961-88

Regression Equation : $\text{Log } y = a + bt$
 $y = \text{Export Price Indices in US\$ 1980} = 100$

Period	Constant term (a)	Regression coefficient (b)	T=values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	3.30	0.12*	7.91	0.87*	60.23
1971-81	3.49	0.11*	14.85	0.96*	216.00
1981-88	4.43	0.03**	2.29	0.47**	5.32
1961-88	3.07	0.06*	17.91	0.93*	345.43
<u>B - Developing Countries (DCs)</u>					
1961-71	2.11	0.05*	3.92	0.63*	15.69
1971-81	2.53	0.20*	9.68	0.91*	91.00
1981-88	4.70	-0.05*	-9.76	0.94*	94.00
1961-88	1.86	0.11*	13.62	0.88*	126.94
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	1.51	0.02*	3.96	0.64*	16.00
1971-81	1.80	0.28*	8.89	0.90*	81.00
1981-88	4.93	-0.12*	-8.97	0.93*	79.71
1961-88	0.99	0.14*	11.25	0.83*	126.94
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	3.33	0.01*	6.15	0.81*	38.37
1971-81	3.46	0.11*	10.71	0.93*	119.57
1981-88	4.52	-0.01***	-1.86	0.37***	3.52
1961-88	3.15	0.06*	12.69	0.86*	159.71
<u>E - World</u>					
1961-71	2.96	0.03*	5.30	0.76*	28.50
1971-81	3.29	0.13*	13.58	0.95*	171.00
1981-88	4.49	0.02	1.33	0.23	1.79
1961-88	2.78	0.07*	18.44	0.93*	345.43

Table-5 Contd..

Regression Equation : $\text{Log } y_1 = a + bt$ y_1 = Import Price Indices in US\$ 1980 = 100

Period	Constant term (a)	Regression coefficient (b)	T=values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	3.13	0.01*	5.59	0.78*	58.50
1971-81	3.26	0.13*	13.95	0.96*	216.00
1981-88	4.48	0.01	0.71	0.08*	0.52
1961-88	2.85	0.07*	15.42	0.90*	234.00
<u>B - Developing Countries (DCs)</u>					
1961-71	3.14	0.02*	4.21	0.66**	17.47
1971-81	3.29	0.13*	12.06	0.94*	141.00
1981-88	4.62	-0.02*	-3.74	0.70*	14.00
1961-88	2.92	0.07*	13.92	0.88*	190.67
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	3.28	0.02*	9.59	0.91*	91.00
1971-81	3.47	0.11*	14.33	0.96*	216.00
1981-88	4.45	0.02***	1.67	0.32	2.82
1961-88	3.07	0.06*	17.00	0.92*	299.00
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	3.13	0.02*	4.57	0.70*	63.00
1971-81	3.23	0.13*	10.07	0.92*	103.50
1981-88	4.62	-0.02*	-3.74	0.70*	14.00
1961-88	2.91	0.07*	13.33	0.87*	174.00
<u>E - World</u>					
1961-71	3.14	0.01*	5.71	0.78*	31.91
1971-81	3.26	0.13*	13.39	0.95*	171.00
1981-88	4.50	0.005	0.42	0.03*	0.19
1961-88	2.86	0.07*	15.27	0.90*	234.00

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

*** Indicates significant at 10 per cent level.

Source : International Monetary Fund, International Financial Statistics, and World Bank, World Tables, Various issues.

So as to understand the consistent trend for the growth in export share with time, we worked out the semi-logarithmic regression equation ($\text{Log } y = a + bt$). Results of statistically reliable regression coefficients (Table-6) exhibited a higher rate of growth of relative share of export in DMEs vis-a-vis the DCs and NONOPEC. DMEs recorded an improvement by 1 per cent annually, DCs and NONOPEC witnessed a deceleration by 2 per cent. In case of OPEC, share of export declined by 4 per cent per annum. The present analysis, therefore, underlined the poor performance record of developing countries (DCs) vis-a-vis the developed market economies (DMEs) in sharing the world export expansion during 1961 to 1988.

II.6 Direction of World Trade

Direction of trade by developed market economies (DMEs), developing countries (DCs) and socialist countries (SCs) has been summarised in Table-7. The share of intra-regional export in developed market economies (DMEs), by and large, increased, where as, that of import, more or less, declined over the years. Trade from developed market economies (DMEs) into developing countries (DCs), by and large, showed a deterioration. The export share from developed market economies into socialist block declined, where as, to that of import increased. Intra-regional trade of developing countries (DCs) improved over the years. It is satisfying that export share among the developing countries, which was

Table-6 : Growth trends in Relative Share of Export in Developed Market Economies and Developing Countries : 1961-88

Regression Equation : $\log y = a + bt$
 y = Relative Share of Export at 1980 = 100

Period	Constant term (a)	Regression coefficient (b)	T-values	R^2 = values	F = Statistics
<u>A - Developed Market Economies (DMEs)</u>					
1961-71	3.92	0.02	3.49	0.58*	12.43
1971-81	4.12	0.01	5.96	0.80*	36.00
1981-88	4.23	0.002	0.95	0.13	0.90
1961-88	4.00	0.01	7.55	0.69*	20.03
<u>B - Developing Countries (DCs)</u>					
1961-71	3.89	-0.03*	-4.02	0.64*	16.00
1971-81	3.65	-0.01*	-5.57	0.77*	30.13
1981-88	3.44	-0.005	-0.93	0.13	0.90
1961-88	3.82	-0.02*	-10.75	0.82*	118.44
<u>C - Oil Producing and Exporting Countries (OPEC)</u>					
1961-71	3.23	0.02**	2.19	0.35**	4.85
1971-81	3.53	-0.07*	-8.03	0.88*	66.00
1981-88	2.31	0.01	0.30	0.01	0.06
1961-88	3.65	-0.04*	-7.28	0.67*	18.27
<u>D - Non-Oil Producing and Exporting Countries (NONOPEC)</u>					
1961-71	3.10	-0.12*	-3.80	0.62*	14.68
1971-81	2.03	+0.08*	13.25	0.95*	171.00
1981-88	3.07	-0.02	-1.08	0.16	1.14
1961-88	2.30	-0.02**	-2.35	0.18**	5.71

* Indicates significant at 1 per cent level.

** Indicates significant at 5 per cent level.

Source : International Monetary Fund, International Financial Statistics, and World Bank, World Tables, Various issues.

Table-7 : Direction of World Trade Over Different Points of Time

(In Per cent)

Export From	Exports To	World	Developed countries	Developing countries	Socialist countries
World	1965	100.00 (100.00)	68.35 (100.00)	19.91 (100.00)	11.74 (100.00)
	1970	100.00 (100.00)	71.05 (100.00)	18.52 (100.00)	10.43 (100.00)
	1980	100.00 (100.00)	67.90 (100.00)	23.61 (100.00)	8.49 (100.00)
	1987	100.00 (100.00)	72.30 (100.00)	19.60 (100.00)	8.10 (100.00)
Developed countries	1965	100.00 (68.82)	75.36 (75.87)	20.50 (70.88)	4.14 (24.27)
	1970	100.00 (71.95)	77.42 (78.40)	18.56 (72.10)	4.02 (27.72)
	1980	100.00 (63.24)	71.60 (66.69)	23.50 (62.93)	4.90 (36.49)
	1987	100.00 (63.37)	78.30 (69.10)	18.50 (58.13)	3.20 (36.45)
Developing countries	1965	100.00 (19.36)	72.04 (20.40)	20.75 (20.18)	7.21 (11.88)
	1970	100.00 (27.47)	73.51 (18.07)	20.13 (18.98)	6.36 (10.66)
	1980	100.00 (27.98)	70.64 (29.11)	25.56 (30.28)	3.80 (12.52)
	1987	100.00 (27.40)	67.50 (26.46)	24.80 (36.11)	7.70 (6.28)
Socialist countries	1965	100.00 (11.82)	21.56 (3.73)	15.07 (8.94)	63.38 (63.85)
	1970	100.00 (10.58)	23.69 (3.53)	15.61 (8.92)	60.70 (61.62)
	1980	100.00 (8.78)	32.49 (4.20)	18.23 (6.79)	49.28 (50.99)
	1987	100.00 (9.23)	32.80 (4.44)	19.90 (5.76)	46.30 (57.27)

Note : Figures under brackets show the per cent in import while unbracketed figures indicate the percent in export.

Source : United Nations, Statistical Year Book, Various issues and UNCTAD Secretariat Computations based on data from UNSO.

around 21 per cent in 1965 rose up to around 25 per cent in 1987, while that of import share increased from 20 per cent to 36 per cent. Export share from developing countries (DCs) declined into the developed market economies (DMEs). The trade from socialist to developing countries (DCs) showed a mixed pattern. Where as the share of export from socialist countries increased into the DCs, the import share there from declined over the years.

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As intra-regional trade of developing countries (DCs) portrayed improvement, it would be worthwhile to examine the structure of intra-regional and the inter-regional trade commodity-wise. The analysis of Table-8 showed that, between 1980 and 1987, intra-regional trade of developing countries (DCs) declined in food, agricultural raw materials and fertilizers, steel, iron and non-ferrous metals, it increased in chemicals, machinery and transport equipment and other manufacturers. Specifically, intra-regional trade of developing countries (DCs) increased in chemicals from 8.10 per cent in 1980 to 10.40 per cent in 1987; in machinery and transport from 21.90 per cent to 27.10 per cent; and in other manufacturers from 27.20 per cent to 31.80 per cent.

A similar finding also emerged in respect of inter-regional trade of developing countries (DCs), which decelerated in food and agricultural raw materials and fertilizers, whereas, improved in chemicals, steel, iron and non-ferrous metals, machinery and transport equipment and

other manufacturers. It appears that intra-regional and inter-regional trade of developing countries (DCs) improved in non-traditional-technology intensive products, whereas deteriorated in traditional resource-intensive products.

Table-8 : Structure of Intra-regional and Inter-regional Trade in Developing Countries by Broad Product Groups : 1980 and 1987.

(In per cent)

Product Groups	Intra-regional trade		Inter-regional trade		All exports	
	1980	1987	1980	1987	1980	1987
1. Food	21.90	14.70	28.80	20.80	29.90	18.90
2. Agricultural raw materials and fertilizers	11.20	7.80	7.70	6.10	10.80	5.90
3. Chemical products	8.10	10.40	4.40	7.10	4.00	4.90
4. Steel, iron and Steel and non-ferrous metals	7.80	6.70	6.10	7.80	12.20	7.70
5. Machinery and transport equipment	21.90	27.10	17.10	18.30	13.10	23.60
6. Other manufacturing	27.20	31.80	33.70	37.70	27.60	37.70
7. Total manufactures	57.20	69.30	55.30	63.10	44.70	66.20

Source : UNCTAD Secretariat Computations, based on data from UNSD

III. Factors Affecting Trade Performance

The poor trade performance in developing countries (DCs) during 1960s was viewed as an outcome of 'low elasticity of export supply' determined mainly by the 'lack of manufacturing experience'¹, 'low skilled labour force' and 'technological inefficiency'². Derived from above, the production structure in developing countries (DCs) was attributed to be operating under 'diminishing returns to scale'³. Apart from these, many developing countries also faced the policy induced restraints on account of their inward-oriented trade strategy, which not only led to their poor trade performance, but also created the country's internal adjustment problems.⁴ Associated with these were also the factors on external front as had been stressed: "The lag in export of less developed countries, was mainly a reflection of relative sluggishness in external demand emanating from the great industrial consumers".⁵ This lack of demand was primarily the outcome of "(1) a shift in the

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1. Cairn Cross, A.K., "International Trade and Economic Development" Economica, Vol.XXVIII, 1961, pp.545-558; Cohen, B.I., "The Stagnation of India's Exports 1951-1961", The Quarterly Journal of Economics, Vol.78, 1964, pp.605-620.
 2. UNIDO, Industry 2000 - New Perspectives, Vol.4, p.30.
 3. Yeats, A.J., Trade Barriers Facing Developing Countries, Macmillan, 1979, pp.46-47.
 4. Dell, Sidney, "The International Environment for Adjustment in Developing Countries" World Development, Vol.8, No.1, November 1980, pp.834-838.
 5. Nurkse, R., Pattern of Trade and Development, The Wicksell Lecture, Stockholm, 1959.

pattern of output in the industrial countries in favour of engineering, chemicals and other industries and services, which have high import content; (2) agricultural protectionism in the industrial countries; (3) a secular trend toward the uses of primary materials per unit of output of manufactures, and (4) a substantial substitution of synthetics for improved natural materials".¹

III.1 Export Structure Diversification

In response to the supply and demand constraints since 1960s onwards, many developing countries (DCs) began to rely more on outward-oriented industrialization strategy and accordingly transformed their export structure. The share from primary commodities gradually declined in total export basket, whereas, that from manufacturing increased progressively. During 1965-1985, the share from manufacturing in the low income developing countries increased from almost negligible to 65 per cent; in middle income developing countries from 24 to 50 per cent; and that in upper middle income developing countries from 32 to 57 per cent. However, in developed market economies (DMEs) the corresponding share rose only from 76 to 81 per cent over the same time period. Thus, increase in share from manufactures was less significant in developed market economies (DMEs)

1. Maizels, A., "The Effects of Industrialization on Exports of Primary Producing Countries", Kyklos, Vol.XIV, p.19.

than to that in developing countries (DCs).¹ In 11 leading developing countries (DCs), share of export from manufacturing accounted for about 80 per cent in 1975², which further rose to 85 per cent in 1985.³

III.2 Shift in Comparative Advantage

Various reasons suggest themselves for this spectacular transformation of export structure. Some studies underlined the role of 'availability of low skills' rather than physical capital and technology, emphasising the developing countries's comparative advantage as determinants of growth of manufactures' export. This view point was in line with 'neo-factor proportion model' of international trade.⁴ On the contrary, other studies identified the physical capital, change in technology and R & D as principal causal factors for the shift in comparative advantage and consequently the

1. World Bank, World Development Report, 1987, pp.83-87.
2. Lall, Sanjay, Developing Countries in the International Economy, Macmillan Press Ltd., London and Basingstoke, 1981, p.176.
3. World Bank, World Development Report, 1987, op.cit..
4. Hirsch, S., Rich man's Poor Man's and Every Man's Goods : Aspects of Industrialization, 1977, Tubingen : Mohr, pp.63-64; Lowinger, T.C., "The New Factor Proportion Theory of International Trade : An Empirical Investigation", American Economic Review, 1971, pp.675-681; Tiwari, R.S. and Bhushri, N.K., "World Trade Patterns : An Empirical Study of Revealed Comparative Advantage Approach", India Quarterly, April-June, 1987, pp.138-161; Panchmukhi, V.R., "Revealed Comparative Advantage Approach : India's Trade with ECAFE Region", Economic and Political Weekly, Vol.VIII, No.2, 1973, p.65.

change in export structure from labour-intensive traditional sector to capital-intensive non-traditional sector, although "very few small scale labour intensive goods were able to maintain their share of exports".¹ This view point was implicitly in line with the well known Leontief paradox.

The structure of comparative advantage of one country may, however, be different than the other country. Chenery and Keesing² divided 24 developing countries (DCs) into 4 groups on the basis of comparative advantage. Group I was described as relatively small economies, in which comparative advantage existed "in labour-intensive and technologically mature products." The group II was those of large semi-industrial countries, which were comparatively efficient "in capital and intermediate goods". Economies under the group III were those, which comparatively specialised in labour-intensive energy based goods. Group IV included those 'large poor economies', which portrayed diversification in their exporting activities. In recent years, the export share from manufacturing improved in these countries, where as, that

1. Boatler, R.W., "Trade Theory Prediction and the Growth of Mexico's Manufactured Exports", Economic Development and Cultural Change, 1975, pp.491-506, Cline, M.R. and Rapoport, A.I., "Industrial Comparative Advantage in Central American Common Market", in W.R. Cline and E.D. Dalgado (eds.) Economic Integration in Latin America, 1978, Washington, DC, Brookings Institution; Tyler, W.G., "Trade in Brazilian Case" Economica Internationale 1972, pp.314-334; Tyler, W.G., Manufactured Export Expansion and Industrialization in Brazil, Tubingen: Mohr., 1976.
2. Chenery, H. and Keesing, D.B., The Changing Composition of Developing Country Exports, Washington, D.C., World Bank (Mimeo.), 1978.

from traditional sector deteriorated. Seemingly, therefore, comparative advantage in developing countries not only confined in 'low skill' based traditional export but also in activities requiring greater skills and technology'.¹ Thus, "the pattern of developed/less developed country trade will come to resemble that of intra-developed country trade, with DCs specialising in the more standardised, less innovative portions of the same industries, rather than in different industries (as compared to industrialized nations). It will be special skills based on large scale R & D and marketing which will constitute the comparative advantage of developed countries with in each industry, and not skills in general, which had in the past ruled out certain industries from DCs altogether."²

III.3 Tariff and Non-tariff Barriers

This apparant change in export structure in developing countries (DCs) is also seen accompanied by the shift in trade barriers pursued by many developed countries (DMEs). It is evident that before and after Tokyo round, weighted and average tariffs on finished and semi-finished goods of DCs have decreased. For example, weighed and average tariff declined from 8.9 per cent and 8.5 per cent. to 6.7 and 5.8 per cent in EEC market; from 10.0 and 11.0 to 6.8 and 6.7 in

1. Lal, Sanjay, Developing Countries in the International Economy, Macmillan, London and Basigstoke, 1981, p.200.

2. Ibid, p.200.

Japan; and from 11.4 and 12.0 to 8.7 and 6.7 per cent in USA market respectively.¹ However, over the years, when DCs became the exporters of manufactures in DMEs, the imposition of non-tariff barriers became more significant. The 'Hard Core' representing impact of all possible measures of non-tariff barriers (NTB) was found significantly higher on exports from DCs than to that from DMEs. For instance, in 1986, NTBs were 23 per cent on exports from DCs in EEC, which was 10 per cent higher than that imposed on exports from DMEs of 13 per cent. Corresponding NTBs in USA were 17 and 15 per cent respectively. However, NTBs were less on exports from DCs (22 per cent) in Japan, as compared to exports from DMEs (29 per cent). In all industrially advanced countries, the NTBs were 21 per cent on DCs's export, which were far higher than 16 per cent NTBs imposed on export from DMEs².

These protective measures in the form of tariffs and non-tariffs, affected adversely the export interest to developing countries on a wide spectrum of commodities, ranging from traditional-resource-intensive-agro based products to non-traditional-technology and R & D intensive-engineering goods export. The export goods now facing quantitative restrictions include : agricultural goods, cotton and non-cotton textiles, clothing, footwear, electronics, mechanical and engineering goods. Manufacturing

1. World Bank, World Development Report, 1987, op cit., p.136.

2. Ibid, p.142.

goods which were at higher stages of processing and which enjoyed a liberal treatment previously are now a subject of severe quantitative restrictions.¹

DMEs provided justification for their trade barriers on the ground that exports from DCs had been the principal cause for their internal structural adjustment problems, such as, high unemployment and intense competition. However, this is too far from reality as has been stressed : "Protection has not been particularly successful in maintaining jobs or reducing adjustment costs even in protected industry. For economy as a whole, because of inter-sectoral and macro-economic effects, it probably lowered employment. Few jobs have been saved and the costs have been inordinate."² It, therefore, appears that imposition of quantitative restriction is deliberate, which has frequently been used as a 'scape goat' by DMEs to overemphasise their internal structural adjustment problem.³ Thus, the principal objective behind the protective trade barriers of DMEs has primarily been to discourage the exports of all kinds from DCs.

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1. Sampson, G.P., "Contemporary Protectionism and Exports of Developing countries, World Development, ol.8, No.2, Feb.1980, pp.113-127.
 2. World Bank, World Development Report, 1987, op cit., pp.152-153.
 3. Krueger, A.O., "Effects of Exports From New Industrial Countries On US Industries" in W. Kasper and F.G. Perry (eds.) Growth, Trade and Structural Change in an Open Australian Economy, Centre for Applied Economic Research, University of State Walls, 1978.

III.4 Preferential Schemes

In response to these protectionist tendencies, many DCs started demanding preferences from DMEs under various schemes. The Generalised Systems of Preferences (GSP) was one, which was implemented by EEC and Japan (1971), Nordic countries (1972) and United States (1976). Under GSP Scheme, 77 developing countries (DCs) were eligible for tariff preferences on "horizontal basis" for their industrial goods, exceptions were, however, textiles, leather, petroleum and selected agricultural goods. Preferences under MFN principle were based on 'non-reciprocity' and 'non-discriminatory' formulas. However, GSP was more on paper than in action. Different 'escape clauses' and 'restrictive criteria' were evolved to neutralise the benefits from GSP. For instance, EEC implemented "triggers" for the temporary suspension of preferences when imports reach to pre-determined level in the form of tariff quotas (sensitive products) tariff ceiling (special semi-sensitive products), ceilings (semi-sensitive and non-sensitive products), as well as maximum country limits."¹ Similarly Japan imposed ceilings on all industrial imports determined on the basis of past year's imports under the condition that preference had not exceeded to 50 per cent of the total imports. U S A also followed "competitive" under which GSP can be terminated if "GSP imports from any

1. Pugel, T.A. and Walter, I., "Market Access For Exports From Developing Countries", in UNIDO, Industry-2000-New Perspective, Vol.4, December 1979, p.221.

single beneficiary exceed \$ 25 million or 50 per cent of the total preferential imports of any particular products."¹

Considering limitations of GSP scheme, many DCs appealed to DMEs that 'escape clauses' and 'restrictive criteria' need to be abolished and that this scheme should be extended on 'vertical basis' because different individual DCs are not equal in terms of their various characteristics. However, despite every efforts, little had been done in this direction, and as a step further, Lome convention came into force on 1 April, 1976 between EEC (6 industrial countries) and a group of African Caribbean and pacific (ACP) and 56 developing countries. Convention in the form of regional arrangement, primarily aimed to provide tariff and non-tariff preferences vertically for all products with exceptions of certain agricultural export-products. Besides, convention also proposed to provide financial and technical assistance with a view to encourage industrial cooperation through technology transfer and trade promotion through implementation of industrial projects. The most encouraging feature of this convention was the "Stabex" facility that proposed to stabilize the export earnings of primary export-products from DCs. However, like GSP scheme the well advanced objectives of Lome Convention were not implemented fully in practice and immediately after a year the textiles exports from Tunisia and Morrocco suffered considerably on account of 'safeguard' actions taken by EEC.

1. Pugel, T.A. & Walter, I., op. cit., p.221.

As such, successfulness of preferential schemes depended much on the qualified 'safeguard' clauses, M F N principle, reciprocity, stand-still, roll back, domestic legislation and unfair trading practices, i.e., structural factors arising on account of DMEs and DCs. Thus, a concerted international action in these areas became inevitable step for strengthening the international trading system. The commitments to many of these issues enshrined in the Punta del Este declaration under Uruguay Round, stressed that :

"Trade liberalisation in the areas of export interest to developing countries would relieve their foreign exchange constraint to growth which, in turn, would spur development. The developed economies would also benefit from such growth, as the developing countries would spend a significant proportion of their additional export earnings on imports of machinery and intermediate goods from the developed countries. Trade liberalisation in favour of developing countries would in all probability result in allocation of resources among the developed countries toward technologically intensive industries and increased factor productivity. Such opening up of the international trade regime could also help to improve the debt servicing capacity of developing countries, which could, in the longer run, lead to the resumption of financial flows. It is, therefore, necessary to find solutions to the problems faced by the exports of developing countries, for therein lies the clue to speeding up world economic growth and the development

process"¹. The Uruguay Round, therefore, offers "a myopic consideration to strengthen the whole fabric of multilateral trading system, which would endorse the 'ambience of indiscipline' and ultimately to wreck the system".²

Various proposals in December, 1989 and 1990 under Uruguay round have been put forward for trade liberalisation under non-discriminatory and MFN principles. These, however, have not been without a heavy cost of individual developing countries, which often have to accept uncondusive conditions of IMF and World Bank under the acute pressure of US trade and investment policies. This is under the US 'Various Trade Act' provisions to open the market and finally the desire on the part of a number of developing countries to invite foreign direct investment by providing policy incentives of which trade liberalisation is one. In fact, even countries like India have offered to reduce tariffs by 30 per cent in the Uruguay Round³. A similar was also the case with 'reciprocity' argument. Until the end of Uruguay Round, in the year 1991, "India along with China and Thailand has been placed in the special 301 list for the persistent and acute nature of the problem as seen by the US. The US can impose 100 per cent duty on imports from India. The US believes

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1. Research and Information System for the Non-Aligned and Other Developing Countries, Inter-Dependent Growth with Global Equity : Strategy for the 1990s, RIS, 1989, p.49.
 2. Ibid, p.49.
 3. Chishti, Sumitra, Restructuring of International Economic Relations, Concept, 1991, p. 58

that India's patent act of 1970 has led to piracy, counter trade, etc. The loss according to unofficial estimates, is between \$ 123 million and \$ 244 million".¹

Similarly, it seems difficult to retain the special and differential treatment accorded to developing countries after Uruguay Round. "First it is argued that S and D have little economic logic underlying it and it brings no major improvement for the recipient developing countries. Second, the more developed countries among developing countries enjoying preferential access are the 'free riders' on the willingness of the developed countries to bear the onerous burden of liberal trade policies. Third, the S and D provisions help to keep developing countries not to ask for any S and D facility but join in active negotiations and develop comparative advantage and thus be more competitive in international operations. And fourth, this has led to the indiscipline and rising protectionism creeping in the trade policies of developed countries while at the same time the developing countries were campaigning for more differential treatment".² Therefore, various preferential schemes because of their inbuilt characteristics and instability had not been successful to accelerate the exports from developing countries into the developed market economies (DMEs).

1. Chishti, Sumitra, op.cit., p.65.

2. Ibid, p.71

IV. Need for Trade Cooperation Among Developing Countries

The overview of trade performance during the period under review did not portray an impressive picture for developing countries. Export performance of developing countries in general and NONOPEC in particular lagged behind to that of developed market economies. However, the rate of growth in import required to boost domestic production and so to export was found just equal both in the developing and the developed countries. Merchandise trade position was seen relatively better off in developed countries than to that in developing and the OPEC. Terms of trade worsened significantly in NONOPEC and marginally in DMEs, whereas, it improved in DCs, OPEC and the world as a whole. Relative Share of export of developing countries in general and the NONOPEC in particular in the world export fell down considerably, whereas, it improved in the case of developed countries. However, the decline in the share of export was more sharp in the OPEC. The trade flows among the developing countries improved over the years and this was quite spectacular in the case of technology and R & D intensive export-goods like chemicals, machinery and transport equipment and other manufactures. The study, therefore underlined the poor trade performance record in developing vis-a-vis the developed countries.

This in turn, created a serious crisis in the foreign exchange and thereby increased dependence of developing

countries on the foreign assistance. The total long-term repayable external debt in developing countries shot up over 19 times from US\$ 46066 mill. in 1970 to US\$ 898041 mill. in 1989. Of which, long-term repayable principal amount rose up over 8 times from US\$ 5967 mill. to US\$ 50032 mill. The repayment of interest component of debt also shot up over 9 times from US\$ 5113 mill. in 1970 to \$ 46502 mill. in 1989.¹

It would imply that developing countries were oriented towards the import-linked export led foreign aid strategy for their economic development, which could be reverted back only if export performance could be enhanced by adopting efficient production and trade policies. What is therefore required is an appropriate adoption of self-sustainable export-led growth strategy based on the availability of internal resources compatible with comparative advantage rather than depending too much on foreign-aid. It is not, however, an easy task. Under the emerging international trading system, under which most of the non-oil producing and exporting developing economies are the equal partners for their manufactured goods exports in the same industrialised country markets. Therefore, most of them have to compete with one another in the same market at the given ruling price to sell their products.

The prospect of export expansion from developing countries further weakens if international trading

1. World Bank, World Development Report, 1991.

environment is taken into consideration. Various preferential schemes under GSP, Lome Convention and Uruguay Round were such that, because of their inbuilt limitations and instability, led to deterioration in exports rather than helping to increase the exports from developing countries. What is really distributing is the intensity of non-tariff barriers, which is generally high on the many export-products interest to developing countries. Where as, developed countries had been able to 'skip over' trade barriers by diversifying their export products and markets, the developing countries could not be able to counter such adverse effects.¹ This means that trade tensions between developed and developing countries will further deepen and, therefore, developing countries will have to seek alternative market outlets for their exports. Thus, trade among developing countries through trade cooperation appears to be an inevitable path to achieve the collective self-reliance with economic growth in developing countries.

1. RIS, 1989, op.cit, 22, p.46.